

**The Virgin Drinks Company Limited**

**Directors' report and financial  
statements**

Registered number - 2952948

28 January 2001



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## **Directors' report**

The directors present their annual report and the audited financial statements for the 52 week period ended 28 January 2001.

### **Principal activities**

The principal activity of the company is the distribution and sale of drinks.

### **Review of business**

During the period sales grew significantly as a result of the expanded distribution base, with increased market share in the cola category and the impact of the launch of the new product offerings. The cola category continues to be subject to aggressive price competition. New product offerings focused on the high growth market for stimulant drinks and the business invested in a major market launch with its range of dt and nt products.

On 31 January 2001 the immediate holding company subscribed for £8 million of ordinary shares at par.

On 22 February 2000 the company changed the name from The Virgin Cola Company Limited to The Virgin Drinks Company Limited.

### **Proposed dividend and transfer to reserves**

The directors do not recommend the payment of a dividend (2000: *£nil*). The loss for the period of £13,055,347 (2000: *loss £6,097,260*) has been transferred to reserves.

### **Directors and directors' interests**

The directors during the period were as follows:

Sir RCN Branson (resigned 25 June 2001)  
PA Steele (resigned 26 April 2001)  
A Cook (resigned 24 August 2001)

The following directors were appointed subsequent to the period end:

J Jackson (appointed 25 June 2001)  
A Lee (appointed 24 August 2001)

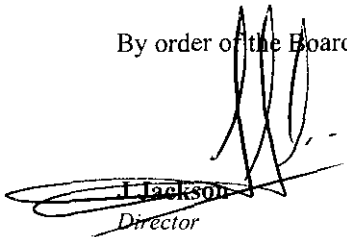
None of the directors who held office at the end of the financial year had any disclosable interest in the share capital of the company. None of the directors had a material interest, at any time during the period, in a contract with the company.

## Directors' report

### Auditors

The members of the company have passed elective resolutions in accordance with Sections 366A, 252 and 286 of the Companies Act 1985 dispensing with the previous statutory requirement of holding annual general meetings, laying accounts before the company in general meetings and reappointing auditors annually. The last resolution will lead to the continuing appointment of KPMG as auditors of the company until further notice.

By order of the Board



J. Jackson  
Director

120 Campden Hill Road  
London  
W8 7AR

30 January 2002

## Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the results of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departure disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



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## **Independent auditors' report to the members of The Virgin Drinks Company Limited**

We have audited the financial statements on pages 5 to 13.

### *Respective responsibilities of directors and auditors*

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

### *Basis of audit opinion*

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### *Opinion*

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 28 January 2001 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

**KPMG**  
Chartered Accountants  
Registered Auditor

30 January 2002

## Profit and loss account

for the 52 week period ended 28 January 2001

	Note	52 w 28 Ja £	Year ended 31 J £
<b>Turnover</b>		<b>21,233,988</b>	18,317,262
Cost of sales		(16,554,606)	(14,867,411)
		<hr/>	<hr/>
<b>Gross profit</b>		<b>4,679,382</b>	3,449,851
Administrative expenses		(17,023,913)	(9,687,863)
		<hr/>	<hr/>
<b>Operating loss</b>		<b>(12,344,531)</b>	(6,238,012)
Other interest receivable and similar income	5	2,796	423,126
Interest payable and similar charges	6	(713,612)	(282,374)
		<hr/>	<hr/>
<b>Loss on ordinary activities before taxation</b>	2	<b>(13,055,347)</b>	(6,097,260)
Taxation	7	-	-
		<hr/>	<hr/>
<b>Loss on ordinary activities after taxation</b>	15	<b>(13,055,347)</b>	(6,097,260)
		<hr/>	<hr/>

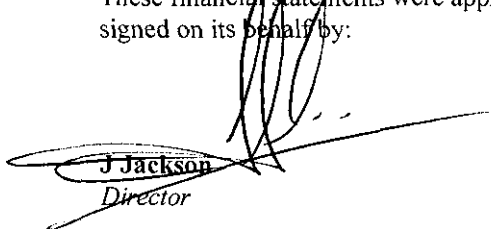
The company had no recognised gains or losses other than the loss for the period stated above, all of which was derived from continuing operations.

## Balance sheet

at 28 January 2001

	Note	28 January 2001		31 January 2000	
		£	£	£	£
<b>Fixed assets</b>					
Tangible assets	8		636,929		1,223,605
<b>Current assets</b>					
Stocks	10	1,066,071		1,038,632	
Debtors	11	8,434,122		17,193,375	
Cash at bank and in hand		731,185		511	
		<u>10,231,378</u>		<u>18,232,518</u>	
<b>Creditors: amounts falling due within one year</b>	12	(23,303,299)		(18,381,831)	
<b>Net current liabilities</b>			(13,071,921)		(149,313)
<b>Total assets less current liabilities</b>			(12,434,992)		1,074,292
<b>Creditors: amounts falling due after more than one year</b>	13		-		(453,937)
<b>Net (liabilities)/ assets</b>			(12,434,992)		620,355
<b>Capital and reserves</b>					
Called up share capital	14	21,700,000		21,700,000	
Profit and loss account	15	(34,134,992)		(21,079,645)	
<b>Equity shareholders' (deficit )/ funds</b>	15		(12,434,992)		620,355

These financial statements were approved by the board of directors on signed on its behalf by:

  
J Jackson  
Director

30 January

2002 and were



## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

#### ***Basis of preparation***

These financial statements are prepared in accordance with applicable accounting standards and under the historical cost accounting rules. They have been prepared by the directors on a going concern basis in view of the fact that the ultimate parent undertaking, Virgin Group Investments Limited, has formally indicated that it will provide sufficient funding to the Company to enable it to meet its liabilities as they fall due, for at least the next 12 months.

The directors have no reason to believe that the parent company will not be in a position to provide the support referred to above and, accordingly, they have prepared the financial statements on the going concern basis.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company and its cash flows in its own published consolidated financial statements.

As 100% of the company's voting rights are controlled within the group headed by Barfair Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Barfair Limited, within which this company is included, can be obtained from Companies House.

#### ***Fixed assets and depreciation***

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Plant and equipment            -            3-5 years (20% - 33%)

#### ***Stocks***

Stocks are stated at the lower of cost and net realisable value.

#### ***Taxation***

The charge for taxation is based on the result for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

#### ***Turnover***

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the period. All turnover is derived from the principal activity, and from operations carried out in the United Kingdom.

#### ***Leases***

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account as incurred.

## Notes (continued)

### 1 Accounting policies (continued)

#### Post-retirement benefits

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

### 2 Loss on ordinary activities before taxation

	52 28 £	Year ended 31 £
<i>Loss on ordinary activities before taxation is stated after charging:</i>		
Depreciation - owned	386,079	340,864
- leased	-	132,651
Rentals under operating leases on properties	124,939	97,123
Hire of other assets – operating leases	130,556	-
Auditors' remuneration: Audit	9,000	9,750
	<u>          </u>	<u>          </u>

### 3 Remuneration of directors

None of the directors of the company received any remuneration in respect of their services during the period (2000: £nil).

### 4 Staff numbers and costs

	52 28 £	Year ended 31 January 2000 £
Wages and salaries	2,298,952	1,512,983
Social security costs	228,718	147,430
Pension contributions	95,738	59,691
	<u>          </u>	<u>          </u>
	2,623,408	1,720,104
	<u>          </u>	<u>          </u>

The average number of staff employed during the period (including directors) were:

	No.	No.
Administration	79	55
	<u>          </u>	<u>          </u>

### 5 Other interest receivable and similar income

	52 28 £	Year ended 31 January 2000 £
Receivable from group undertakings	-	423,126
Bank interest receivable	2,796	-
	<u>          </u>	<u>          </u>
	2,796	423,126
	<u>          </u>	<u>          </u>

## Notes (continued)

### 6 Interest payable and similar charges

	52 28 £	Year ended 31 January 2000 £
On bank overdraft	143,145	238,077
Interest payable to group undertakings	570,467	-
Finance charges payable in respect of finance leases and hire purchase contracts	-	44,297
	<u>713,612</u>	<u>282,374</u>

### 7 Taxation

No tax charge arises for the period due to losses incurred. (2000:£ nil). Tax losses are available to relieve against future profits of the group.

### 8 Tangible fixed assets

	Plant and equipment £
<b>Cost</b>	
At beginning of period	2,414,358
Additions	273,542
Disposals	(889,791)
At end of period	<u>1,798,109</u>
<b>Depreciation</b>	
At beginning of period	1,190,753
Charge for period	386,079
Disposals	(415,652)
At end of period	<u>1,161,180</u>
<b>Net book value</b>	
At 28 January 2001	<u>636,929</u>
At 31 January 2000	<u>1,223,605</u>

Included within the net book value are assets held under finance leases of £nil (2000:£341,722). Depreciation charged on these assets was £nil (2000:£132,651).

**Notes** *(continued)*

**9 Fixed asset investments**

The company has an investment of £1 in Virgin Asia Pty Ltd, a company incorporated in Australia. The company holds 2 ordinary shares, which amounts to 50% of the share capital of Virgin Asia Pty Ltd.

**10 Stocks**

	28 Ja £	31 £
Raw materials	549,692	289,817
Finished goods and goods for resale	2,279,617	791,815
Provision for obsolete stock	(1,763,238)	(43,000)
	<u>1,066,071</u>	<u>1,038,632</u>

**11 Debtors**

	28 Ja £	31 £
Trade debtors	6,167,792	3,471,831
Amounts owed by group undertakings	168,171	7,708,940
Amounts owed by related undertakings	55,053	4,960,999
Other debtors	2,031,734	1,036,080
Prepayments and accrued income	11,372	15,525
	<u>8,434,122</u>	<u>17,193,375</u>

**12 Creditors: amounts falling due within one year**

	28 £	31 £
Bank overdraft	1,863,966	3,982,255
Obligations under finance leases [note 13]	-	128,303
Trade creditors	1,668,605	436,348
Amounts owed to group undertakings	7,949,914	-
Amounts owed to related undertakings	3,935,478	6,348,213
Accruals	7,885,336	7,486,712
	<u>23,303,299</u>	<u>18,381,831</u>

The bank overdraft is secured by a fixed and floating charge over the assets of the company.

**Notes** *(continued)*

**13 Creditors: amounts falling due after more than one year**

	28 £	31 £
Other creditors	-	200,000
Obligations under finance leases	-	253,937
	<hr/>	<hr/>
	-	453,937
	<hr/>	<hr/>
Analysis of debt		
	28 £	31 £
<i>Debt can be analysed as follows:</i>		
In one year or less, or on demand	-	4,110,558
Between one and two years	-	114,573
Between two and five years	-	139,364
	<hr/>	<hr/>
	-	4,364,495
	<hr/>	<hr/>
The maturity of obligations under finance leases are as follows:		
Within one year	-	161,202
In years 2 to 5 inclusive	-	277,667
	<hr/>	<hr/>
		438,869
Less future finance charges	-	(56,629)
	<hr/>	<hr/>
		382,240
Due within one year	-	(128,303)
	<hr/>	<hr/>
Due after one year	-	253,937
	<hr/>	<hr/>

**14 Called up share capital**

	28 £	31 £
<i>Authorised:</i>		
Equity: 21,700,000 ordinary shares of £1 each	21,700,000	21,700,000
	<hr/>	<hr/>
<i>Allotted, called up and fully paid:</i>		
Equity: 21,700,000 ordinary shares of £1 each	21,700,000	21,700,000
	<hr/>	<hr/>

Following the financial year end 8 million ordinary £1 shares were subscribed for by the parent undertaking, at par fully paid, to increase the working capital of the company.

## Notes (continued)

### 15 Reconciliation of shareholders' funds

	Share capital £	Profit and loss account £	Total £
At beginning of period	21,700,000	(21,079,645)	620,355
Accumulated loss for the period	-	(13,055,347)	(13,055,347)
	<hr/>	<hr/>	<hr/>
At end of period	21,700,000	(34,134,992)	(12,434,992)
	<hr/>	<hr/>	<hr/>

### 16 Contingent liabilities

The company is party to an unlimited joint guarantee and bank set off arrangement with fellow group undertakings.

### 17 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	28 January 2001		31 January 2000	
	Land and buildings £	Other £	Land and buildings £	Oth
Operating leases which expire:				
Within one year	-	12,424	[	[
In the second to fifth years inclusive	-	105,718	-	[
Over five years	157,500	-	-	
	<hr/>	<hr/>	<hr/>	<hr/>
	157,500	118,142	[	[
	<hr/>	<hr/>	<hr/>	<hr/>

### 18 Pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the company to the fund and amounted to £95,738 (2000 : £59,691).

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

**Notes** *(continued)*

**19 Related party disclosures**

At 28 January 2001 the ultimate parent undertaking of the company was Virgin Group Investments Limited, whose principal shareholders are certain trusts, none of which individually has a controlling interest in Virgin Group Investments Limited. The principal beneficiaries of those trusts are Sir RCN Branson and/or his immediate family.

The shareholders of Virgin Group Investments Limited have interests directly or indirectly in certain other companies which are considered to give rise to related party disclosures under Financial Reporting Standard No. 8.

The following is a summary of those transactions and balances between the group and related parties which are required to be disclosed under Financial Reporting Standard No. 8:

	<b>Related undertakings</b> £
Turnover	13,292
Debtors	55,053
Creditors	(54,371)
	<hr/> <hr/>

The related undertakings with whom the company transacted during the period or had balances outstanding at the period end were Virgin Publishing Limited, Virgin Stores SA, Virgin Atlantic Airways Limited, Virgin Cinemas Limited, Virgin Aviation Services Limited, Virgin Express Tax Free Shop Limited, Virgin Tribe Orders, Virgin Mobile Telecoms Limited, Virgin Space Store, Virgin Holidays Limited, and Virgin Sun Limited.

**20 Ultimate holding company**

At 28 January 2001 the company's ultimate holding company was Virgin Group Investments Limited, a company incorporated in the British Virgin Islands.

The largest group in which the results of the company are consolidated is that headed by Barfair Limited, a company incorporated in England. The consolidated accounts of this company are available from Companies House.